Stephen W. Davis
GENERAL MANAGER

SCTELCOM

August 6, 2012

Ms. Julie Veach
Bureau Chief, Wireline Competition Bureau
Federal Communications Commission
445 12th St, SW
Room TW-A325
Washington, D.C. 20554

Re: In the Matter of the Connect America Fund, WC Docket No. 10-90; High Cost Universal Support, WC Docket No. 05-337 (Written Ex Parte Communication)

Dear Ms. Veach:

South Central Telephone Association, Inc. ("SCTA") hereby notifies the Federal Communications Commission (FCC) of its intent to file a waiver of the recently adopted high-cost Universal Service Funding ("USF") reforms, specifically the $250 per line per month cap on total USF distributions ("$250 cap") and the limitations on capital and operating expenses utilizing quantile regression analysis ("QRA caps") and respectfully seeks guidance on how to respond to these caps.

SCTA is a small business, cooperative rate-of-return ("RoR") provider of voice and broadband serving over 1,145 square miles in Kansas and Oklahoma with an average density of 1.31 members per square mile. The company has been in business for over 60 years, currently employs 36 people, and provides high quality voice and broadband services to more than 1500 members serving 1700 access lines and nearly 1,000 Internet connections.

We are proud of our history and continue to be a cornerstone of the communities we serve, bringing robust telecommunications and advanced services to our members. Over the past ten years, we deliberately and prudently replaced the old, dilapidated copper network investing over $19 million to upgrade our outside plant with fiber and new electronics, which is more reliable than the old copper plant. Making this investment will help reduce our ongoing maintenance of the network over time. In fact, due in large part to our robust broadband offering, SCTA has over four hundred more connections (including access lines and internet) on its network today than it did in 2000. We have deployed fiber to the homes of 87% of our customers.

In agreement with the principles of universal service as defined in the 1996 Telecommunications Act, we recognize a duty to ensure that all of our customers have access to services at reasonably comparable rates and quality as those enjoyed in urban areas. To make these investments, SCTA took out loans through the Rural Utilities Service (RUS) Telecommunications Infrastructure Loan Program. Also, in 2009 and 2010, SCTA was awarded loans and grants under the American Recovery and Reinvestment Act (ARRA) through the Rural Utilities Service's Broadband Initiatives Program ("BIP") fostering economic growth in rural America and stimulating the U.S. economy. We were able to obtain these loans and awards due to the predictable and sustainable universal service funding policies.

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The recent *Transformation Order* and QRA rules adopted by the FCC, have created significant uncertainty for our company. Specifically, we anticipate that the cooperative will be significantly negatively impacted by the $250 cap and the QRA caps in its Oklahoma study area, and its Kansas study area will be negatively impacted by the QRA caps beginning in 2013.

With regard to QRA caps, we understand that the FCC released certain information about how it developed independent variables and the information that can be input into statistical software to run the model calculations. However, this information is insufficient to allow SCTA to evaluate the caps because the FCC has not made available the actual calculations and subroutines - or the several thousand dollar software program - to fully test the FCC's model. We would incur substantial costs to evaluate this information at a time the FCC has already indicated that SCTA should be reducing expenses by its application of QRA caps, limiting the company's expense recovery. Therefore, to assess why these caps have affected SCTA and what, if anything, can be done to avoid the application of these caps either now or in future years, SCTA needs further information or guidance from the Wireline Competition Bureau. Specifically, we answers to the following questions:

How was our study area boundary established in the formulas used to develop the caps applicable to SCTA?
What census blocks were included within the study area boundaries used in the formulas applicable to SCTA?
What specific costs of SCTA were deemed "excessive" under the caps?
What, if anything, could be done to avoid the application of these caps in the first year through changes made by SCTA to operations or investment practices?
What, if anything, could be done to avoid the application of these caps in subsequent years through changes by SCTA to operations or investment practices?
How can SCTA determine what changes, if any, might occur to the formulas and caps in subsequent years so that we can plan accordingly to operate and invest in as "efficient" and "prudent" a manner as possible by reference to the caps?

This information and any related underlying data that the Bureau can provide with respect to how and why the caps affect SCTA, will be essential in allowing us to develop network investment and operating plans that account for the effect of the caps and restore predictability to the USF support we receive. In the absence of this information, we fail to see how the caps will encourage "efficient" or "prudent" behavior or provide a predictable support mechanism because we will not know what is expected by the new rules or how they will affect future support distributions.

Similarly, we request the Bureau provide guidance on the $250 per month per line cap. SCTA has undergone six audits since 2008 including USAC Compliance Audits for both the Kansas and Oklahoma study areas. Not one of these audits has concluded that we are wasting, abusing or engaging in fraud of the Universal Service Fund monies. All audits have indicated that this level of support is necessary and appropriate for us to meet the principles and goals for universal service established in the 1996 Act.

Also, as the FCC is aware, as an incumbent local exchange carrier, we have carrier of last resort obligations to provide service where there is no business case to do so. Provision of service ensures that all Americans have access to robust and <u>*reliable*</u> communications networks including access to emergency (911) service, which is not always met with other communications technologies. The FCC indicates that total USF distributions should not exceed $3,000 per customer per year ($250 cap), but does not explain why affected companies, like SCTA, should not be allowed to recover legitimate costs nor does it indicate specifically which costs are excessive.

Additionally, as federal universal service funding for RoR Local Exchange Carriers remains tied to voice customers, we are not able to count our broadband customers in determining the amount of support per customer. Our ability to mitigate this effect will be hampered as broadband connections replace landline voice customers during the transition to IP networks. While the FCC indicates it will grant waivers of the $250 cap, it has also indicated that it will not do so on an indefinite basis and carriers will be required to "re-validate" the need for support above the cap. The FCC also states that carriers would be eligible to receive the level of support that it determines to be necessary, which will not necessarily correspond to the amount it was previously receiving. To make up the loss of support, we would presumably need to increase our local service rate, which already exceeds the national average included in the *USF/ICC Transformation Order*. Furthermore, the FCC has imposed an annual reporting requirement (beginning in 2013) that would require eligible telecommunications carriers (ETCs) to certify that their local rate is no more than two standard deviations above the national average. This essentially precludes us from increasing local rates to a level necessary to recover lost revenues from the $250 cap. Therefore, we ask the Bureau to provide guidance on what rates and minimum service quality standards will be considered sufficient to satisfy ETC annual reporting requirements and how the Bureau will determine what level of USF support is "necessary."

Finally, the requested information is necessary for SCTA to ensure that our waiver filing is as effective as possible. Waivers are expensive ($8,000 just to file with the FCC and total cost estimates including professional and legal fees ranging from $150,000-$180,000) and especially in light of the FCC's QRA caps, we must be certain the cooperative's money is efficiently and prudently spent in this endeavor. We also ask the Bureau to provide an estimated timeframe in which we can expect the FCC to act on the petition for waiver filing so we can plan in advance.

Please provide this information and guidance as soon as possible to SCTA so that we may make every reasonable effort to address and respond to the effects of the caps and file a waiver as soon as possible.

Respectfully Submitted,

Steve Davis

Steve Davis
General Manager
South Central Telephone Association, Inc.

cc: Senator Pat Roberts
Senator Jerry Moran
Senator James M. Inhofe
Senator Tom Coburn
Representative Tim Huelskamp
Representative Mike Pompeo
Representative Frank Lucas